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No. 71-666

IN THE

Supreme Court of the United States

OCTOBER TERM, 1971

UNITED STATES OF AMERICA, *Appellant,*

v.

GLAXO GROUP LIMITED and IMPERIAL CHEMICAL INDUSTRIES LIMITED, *Appellees.*

On Appeal from the United States District Court for the District of Columbia

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BRIEF OF APPELLEE GLAXO GROUP LIMITED

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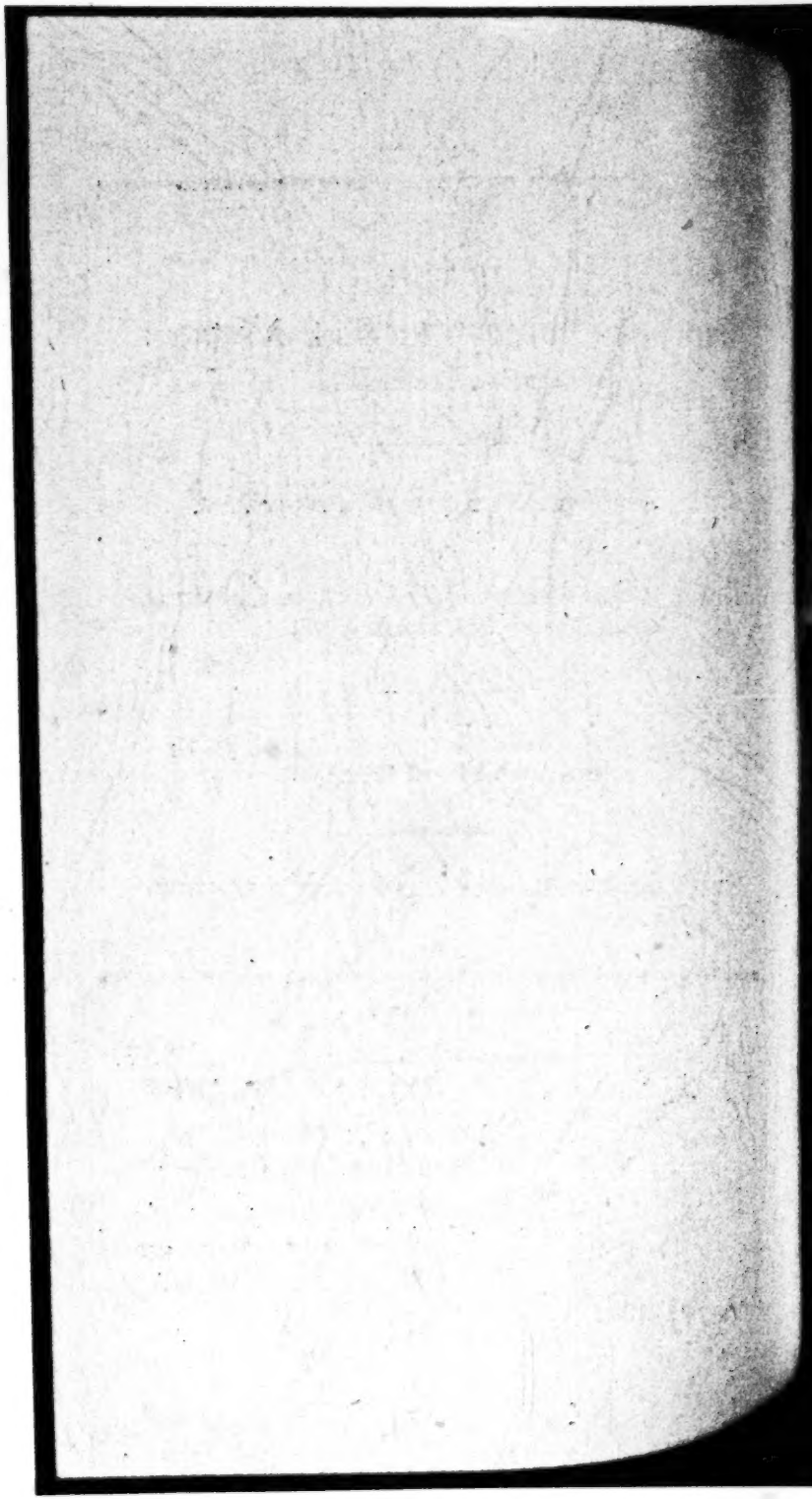

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BRIEF OF APPELLEE GLAXO GROUP LIMITED

QUESTIONS PRESENTED

1. Whether this Court should overrule *United States* v. *American Bell Telephone Co.*, 167 U.S. 224, and hold that the government has the right to bring suit to challenge the validity of patents on conventional patent law grounds, even when such patents are not relied on

as justifying any restraints of trade and when a determination of their invalidity is accordingly not necessary to enable the government to reach such restraints.

2. Whether the District Court was required as a matter of law to provide in its decree for compulsory patent licensing and compulsory sales by appellees, two British drug manufacturers, when (a) the only practice declared unlawful was the imposition by appellees of limitations on the form in which their respective vendees might resell a bulk drug product purchased from appellees, (b) those limitations had been voluntarily cancelled, (c) the court imposed broad injunctive restraints against the direct or indirect revival of such limitations and additionally enjoined practices never adjudged to be unlawful, and (d) the court found that compulsory patent licensing and compulsory sales were not necessary for effective relief.

STATEMENT *

This antitrust case was brought by appellant to contest the legality of certain provisions that at one time were included in agreements relating to an antibiotic known as griseofulvin.[1] Appellees, Glaxo Group Limited ("Glaxo") and Imperial Chemical Industries Limited ("ICI"), are British companies. (App. 4-5) At the time the agreements were made, Glaxo was the

* As used herein, "J.S." refers to the Jurisdictional Statement, "J.S. App." to the Appendix to the Jurisdictional Statement, "App." to the separately bound Appendix, and "Ap. Br." to Appellant's Brief.

[1] Unlike certain popular antibiotics such as penicillin, tetracycline and ampicillin, the total sales of griseofulvin in the United States never amounted to hundreds of millions or even to tens of millions of dollars, and by 1968 had already begun to decline from a high point of less than $8 million reached in 1967. (App. 355)

owner of United States and foreign patent rights relating to a method for manufacturing griseofulvin, and ICI was the owner of United States and foreign patent rights covering griseofulvin in dosage forms for oral use, and the use of such dosage forms to cure fungus infections in human beings. (*Ibid.*)

During the late 1950's and early 1960's, Glaxo and ICI granted each other nonexclusive cross-licenses under their griseofulvin patent rights (App. 127-43); ICI entered into an agreement with American Home Products Corp. ("AMHO"), its exclusive U.S. pharmaceutical distributor (App. 144-48), to sell griseofulvin to AMHO in bulk form (App. 149-51); and Glaxo entered into separate agreements with Schering Corporation ("Schering") and Johnson & Johnson, Inc. ("J&J"), under which the latter purchased bulk griseofulvin and were also permitted to manufacture griseofulvin should they choose to do so (App. 97-125). The agreement between Glaxo and ICI provided that ICI would use its best efforts to prevent its U.S. vendee (AMHO) from selling griseofulvin in bulk without Glaxo's consent (App. 132-32a); the ICI-AMHO agreement provided that AMHO would not without ICI's consent resell in bulk griseofulvin purchased from ICI (App. 150); and the agreements between Glaxo and Schering and J&J stated that the latter two companies would not without Glaxo's permission sell bulk griseofulvin manufactured or purchased by them. (App. 102, 116) At no time did Glaxo have any contractual or other business relationship regarding griseofulvin with AMHO, or ICI with Schering or J&J.

Although Schering and J&J both had the right under their respective agreements to manufacture bulk

griseofulvin, in fact neither of them chose to do so. Rather, both bought their requirements of bulk griseofulvin from Glaxo during the entire relevant period, as did AMHO from ICI. (Ap. Br. 5-6)[2]

In July 1967, several years after the agreements described above had become operative, there was issued to Glaxo an additional United States patent relating to griseofulvin covering the substance in a "microsize" form (App. 37-43), which patent thereupon became subject to the agreements described above.

In October 1967, ICI, immediately upon learning that appellant was questioning the legality of the bulk sale provision in its agreement with AMHO, cancelled that provision not only as to griseofulvin but as to a number of other products as well. (App. 49-50) On March 4, 1968, appellant filed its complaint against Glaxo and ICI. (App. 4-10) Almost immediately thereafter, in April 1968, Glaxo cancelled any and all limitations on the freedom of Schering and J&J to sell griseofulvin, whether purchased or manufactured by them, in bulk form. (App. 362)[3] The only contractual provisions to which appellant's complaint was directed have thus been out of existence for more than four years, and

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[2] During the latter part of the relevant period AMHO purchased griseofulvin in regular bulk form and ground it into "microsize" form, a form which after July 1967 was covered by a Glaxo patent. See text immediately *infra*.

[3] At the time Glaxo, a foreign company with no place of business in the United States (App. 4-5), entered into its agreements it had been unaware that the bulk sale limitations might raise any legal problems under the United States antitrust laws. (App. 362; Affidavit of Herbert William Palmer attached to Brief of Defendant Glaxo Concerning Final Judgments Proposed by the Parties, December 3, 1970 (not printed))

had already been out of existence for more than three years at the time of the entry of the final judgment below.

a. The District Court's Ruling on Restraints on Alienation

When this case was originally brought, it appeared potentially to present a novel question of law, *viz.*, the antitrust legality, in a patent license for manufacturing a drug, of a provision limiting the right of the licensee-manufacturer to sell the product of his manufacture in bulk as opposed to finished form. Glaxo's agreements with Schering, J&J and ICI had provided that the latter two companies and ICI's U.S. vendee (AMHO) were not to sell in bulk any griseofulvin that they themselves manufactured. Accordingly, the issue of the legality *vel non* of a bulk limitation in a manufacturing license was concededly presented by the facts. Nevertheless appellant, for reasons never stated, chose not to seek an adjudication that this aspect of the agreements was unlawful, and no such adjudication was ever made. Rather, appellant chose to tender for decision a far narrower and more conventional issue, *i.e.*, the validity of a contractual provision restricting the *purchaser* of a bulk commodity from reselling that commodity in bulk form. As to this issue, appellant urged that *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365, and other decisions of this Court were controlling, and that the existence *vel non* of patents was irrelevant.

The District Court ruled with respect to three separate motions for partial summary judgment made successively by appellant on this ground that the following contractual provisions that had previously existed were *per se* violations of Section 1 of the Sherman Act: (a) AMHO's undertaking not to resell in

bulk griseofulvin purchased from ICI without the latter's permission (J.S. App. 21, 42), (b) the undertakings of Schering and J&J not to resell in bulk griseofulvin purchased from Glaxo (J.S. App. 58), and (c) the agreement of Glaxo and ICI that the latter would not permit its U.S. vendee (AMHO) to resell in bulk griseofulvin purchased from ICI (J.S. App. 60).[4]

b. The District Court's Ruling on Appellant's Challenge to Patent Validity

In addition to making the foregoing charges, appellant's complaint also sought a declaration that the patent owned by appellee ICI relating to dosage form griseofulvin was invalid on various conventional patent law grounds. (App. 4, 7-8) Although, as noted above, Glaxo's microsize griseofulvin patent had issued in July 1967, some seven months before the filing of the complaint, the validity of that patent was not initially challenged. Some six months after the filing of the original complaint, however, appellant filed a motion seeking to amend its complaint by, *inter alia*, adding a challenge (also based on conventional patent law grounds) to the validity of Glaxo's microsize patent. (App. 21, 24-25) As stated above, these attempts to secure a declaration of patent invalidity were not made because either appellee had attempted to justify any conduct challenged under the antitrust laws on the

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[4] Appellant misstates the rulings of the District Court in asserting that the rulings related to prohibitions on "selling the patented drug 'griseofulvin' in bulk." (Ap. Br. 3. See also *id.* 10). In fact the court's rulings were limited to restraints on the *reselling* of purchased griseofulvin, and the court expressly noted (consistent with appellant's own recognition, Ap. Br. 6) that "common, bulk form griseofulvin is not the subject of any United States patent." (J.S. App. 26)

ground that it was justified by a patent monopoly. The only conduct challenged was the imposition by appellees of limitations on the *resale* of products sold by them, conduct to which all parties agreed patents had no relevance. Rather, the basis of appellant's attempted challenge of patent validity was an asserted "public policy" favoring "the invalidation of specious patents to rid the public of their burden on commerce." (App. 266)

The court, after reviewing the authorities and considering the relevant statutory scheme, held that appellant had no right thus to challenge the validity of appellees' patents, there being no claim that those patents had been procured by fraud, and allowance of a challenge not being necessary to enable appellant to press its antitrust claims since neither appellee had relied on an "asserted shield of patentability" (*United States* v. *United States Gypsum Co.*, 333 U.S. 364, 388) to frustrate or defeat any of those claims. (J.S. App. 21, 42-53)

c. The District Court's Ruling on the Scope of Relief

As noted above, the only antitrust adjudications sought by appellant and made by the court were narrowly and specifically directed to the imposition by a vendor of restraints on the resale by his vendee of a single drug product. Nevertheless, appellant proposed that the trial court enter a decree broadly enjoining each appellee not only from imposing any kind of resale restraint as to any drug product, but also from imposing bulk sale or similar limitations in patent licenses for the manufacture (as opposed to the resale) of griseofulvin and any other drug product. (App. 302-03) The latter relief was proposed despite the fact that

the legality of such limitations concededly presented a novel issue of law, as to which appellant had for reasons of its own chosen not to seek an adjudication although the factual situation presented by the case gave it every opportunity to do so. In addition, appellant sought compulsory licensing of appellees' patents and compulsory sale by appellees of griseofulvin to any would-be buyer (App. 259), despite the fact that the only conduct challenged in the complaint — the maintenance of certain contractual provisions — had not only been long since discontinued by the parties but was also embraced by injunctive provisions embodied in appellant's proposed judgment, and also despite the fact that there had been no charge or finding that either appellee had ever been a party to any agreement by which either agreed to refuse to license or to sell griseofulvin or any other product.[5]

The judgment entered by the trial court (J.S. App. 70-74) embodied the broad injunctions proposed by appellant, embracing all drug products and prohibiting bulk and other limitations in manufacturing patent licenses as well as in vendor-vendee relationships. The court declined, however, to direct compulsory licensing or compulsory sales by appellees, holding that appellant had failed to show that such measures were appropriate in the particular circumstances of this case. (J.S. App. 61, 63-69)

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[5] Appellant unsuccessfully moved to amend its complaint to challenge an alleged understanding among Glaxo, Schering and J&J that Glaxo would not license a third U.S. drug company, Merck. (App. 21, 26) Although appellant has not appealed the trial court's refusal to allow this amendment, it has shown no compunction in treating the claims sought to be introduced by the proposed amendment as established facts. (See Ap. Br. 14, 48)

SUMMARY OF ARGUMENT

I

Appellant asks this Court to decide "whether the government may challenge patents which * * * underlie conduct that violates the antitrust laws." (Ap. Br. 21) In its motion in the District Court for leave to amend its complaint to challenge Glaxo's "microsize" patent appellant did not present any such question, but instead relied on the "inherent power" of the Attorney General "to protect and enforce the policy of the patent laws and Constitution." (App. 265, 271) Because appellant did not raise before the District Court the issue which it now seeks to present, there is no occasion for this Court now to consider that issue. *Ramsey* v. *United Mine Workers*, 401 U.S. 302, 311-12.

In any event, the evidence does not support the contention that Glaxo's patent was, as appellant claims, essential to the contractual restrictions found to have violated the antitrust laws. That patent was not even issued until several years after those restrictions were adopted, and was in effect for only a few months before their cancellation. Moreover, appellant's own argument that without the ICI patent "the defendants could not maintain their monopoly" (App. 271) is inconsistent with a contention that the Glaxo patent was necessary to make the contractual restraints effective.

Even if it should be assumed that Glaxo's patent formed the basis for the bulk limitations that were declared unlawful by the District Court, as appellant claims, that fact would not support appellant's right to challenge the validity of that patent on conventional patent law grounds. Appellant's position is in conflict with a rule established by this Court more than

seventy years ago in *United States* v. *American Bell Telephone Co.*, 167 U.S. 224, and accepted by Congress, the lower courts and appellant itself since that time.

Appellant's reliance on *United States* v. *United States Gypsum Co.*, 333 U.S. 364, is misplaced. In *Gypsum* this Court held that when an antitrust defendant relies on patents to justify restrictive conduct whose legality depends on the validity of patents, the government should be permitted "to show that the asserted shield of patentability does not exist." (333 U.S. at 388) The rationale of *Gypsum* is simply that a party to litigation should not be permitted at the same time to rely affirmatively on his patent and withhold it from judicial scrutiny. Here appellees did not rely on patents to justify the contractual restraints with which they were charged, and the trial court was able to reach those restraints and enjoin their revival without the necessity of litigating patent issues. If appellant's position were correct, this Court could not have ruled in *Gypsum* as it did, that the question of the right to challenge the defendants' patents "need not be decided" (333 U.S. at 387), since the government would have been entitled both to receive a judgment invalidating the restraint and to press its charge of patent invalidity. *Gypsum* thus supports appellees' position rather than that of appellant.

II

This Court has only recently reemphasized that in antitrust litigation the "District Court is clothed with 'large discretion' to fit the decree to the special needs of the individual case." *Ford Motor Co.* v. *United States*, 405 U.S. 562, 573. Such a decree is entitled to special deference where, as here, the judge who formulated it had also found the violations. *United States*

v. *Crescent Amusement Co.*, 323 U.S. 173, 185. The trial court formulated its judgment after a separate relief hearing, in the course of which it heard and considered all the factual arguments on which appellant now relies. Appellant's argument is in substance that the trial court was bound to decree compulsory sales and compulsory patent licensing as a matter of law. Such a position improperly ignores the duty of the trial court to formulate its judgment "to fit the exigencies of the particular case." *International Salt Co.* v. *United States,* 332 U.S. 392, 400-01.

Appellant asserts without reference to any evidence or finding that the restraints found to be illegal "necessarily 'materially contributed' " to the "present noncompetitive market structure," and that "no more is required" to warrant compulsory sales and patent licensing. (Ap. Br. 53) The fact is that appellant itself unwittingly concedes that the restraints had no actual market consequences by arguing that economic self-interest would in any event have kept appellees' vendees from selling in bulk to their competitors. To require compulsory sales and licensing would therefore go far beyond the traditional function of creating a market situation "as near as possible to the *status quo*" existing apart from the adjudged violations. *International Boxing Club* v. *United States,* 358 U.S. 242, 258.

Appellant's argument that compulsory patent licensing "is necessary to create competition at the manufacturing level" (Ap. Br. 50) is particularly revealing. Such competition was never restrained or otherwise affected by any practice at issue in this case, and accordingly there is no reason why the trial court was bound as a matter of law to seek to "create competition at the manufacturing level."

ARGUMENT

I

THE DISTRICT COURT'S ORDER DENYING APPELLANT'S MOTION TO AMEND ITS COMPLAINT TO CHALLENGE THE VALIDITY OF APPELLEE GLAXO'S "MICROSIZE" PATENT SHOULD BE AFFIRMED

a. Appellant Is Improperly Seeking To Challenge Glaxo's Patent on a Theory Not Presented or Decided Below

In its Jurisdictional Statement appellant expressly disclaimed any contention that the court below erred in declining to recognize a general authority in the government "to attack collaterally the validity of patents on any grounds." (J.S. 14-15) Rather, appellant alleged, it sought the right to make such a challenge "only in the narrow context of an antitrust proceeding where the patentee has unreasonably restrained trade in violation of the antitrust laws through the use of a patent which the government asserts is invalid." (J.S. 15) In its brief appellant adheres to this position, asserting that "the question in this case is whether the government may challenge patents which * * * underlie conduct that violates the antitrust laws." (Ap. Br. 21)[6] Indeed, appellant goes so far as to chide the District Court for having described the issue before the court (in the case of ICI) as "whether the United States can challenge ICI's patent independent of any antitrust claims." (Ap. Br. 23)

Appellant's position here is sharply — and at least as to Glaxo fatally — divergent from the position it urged in the District Court. There appellant's basic

[6] At other points in its brief appellant refers to appellees' patents as having "formed the basis for license agreements which unlawfully restrained trade" (Ap. Br. 27), as having been "essential to the appellees' scheme to violate the antitrust laws" (Ap. Br. 28), and as having been "the keystone upon which the appellees built their structure of licensing agreements" (Ap. Br. 34).

reliance was not on any alleged involvement of the challenged patents in any antitrust violation, but rather on "the inherent power" of the Attorney General "by virtue of his office" to "bring this suit [to challenge appellees' patents] to protect and enforce the policy of the patent laws and Constitution." (App. 265, 271)[7] Appellant's motion for leave to amend its complaint to challenge Glaxo's "microsize" patent, and its memoranda in support of that motion, may be searched in vain for any mention of an alleged relationship of that patent to antitrust violations. On the contrary, appellant in support of its attempt to attack the *ICI patent* argued that "without the Imperial patent the defendants could not maintain their monopoly in the United States over the drug" griseofulvin (App. 271), thus affirmatively inviting the District Court to conclude that it was *not* claiming that the *Glaxo patent* was in any way "essential to" or "the keystone" of any alleged antitrust wrong. And appellant at no time below sought any finding as to any relationship allegedly disclosed by the evidence to exist between the Glaxo microsize patent and the particular contractual provisions which appellant claimed to constitute unlawful restraints on alienation.[8]

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[7] In oral argument to the District Court, counsel for appellant stated: "Now, the purpose of this suit [to challenge appellees' patents] is no different from the purpose of all the other suits that are brought throughout the United States by everybody else in the United States except the sovereign to have patents declared invalid." (Transcript of Proceedings of January 23, 1969, p. 144) (not printed)

[8] Appellant's statement to the District Court concerning the purport of its proposed amended complaint against Glaxo is particularly revealing:

> "The amended complaint alleges and seeks a declaration of the invalidity of the Glaxo patent. Such alleged invalidity

Under these circumstances, appellant cannot now be heard to demand from this Court a reversal of the trial court's judgment declining to allow appellant to amend its complaint to challenge Glaxo's microsize patent by an argument which is predicated on the assumption that that patent was "essential to the appellees' scheme to violate the antitrust laws." (Ap. Br. 28) Appellant's belated effort falls squarely within the familiar rule that this Court will in the absence of extraordinary circumstances not consider issues not properly raised before and considered by the courts below. See, *e.g.*, *Ramsey* v. *United Mine Workers*, 401 U.S. 302, 311-12.

b. The Stated Premise for the Attempt To Challenge Glaxo's Patent, That It Was Essential to the Imposition of the Restraints on Alienation Involved in This Case, Is Unfounded

Even if the issue which appellant seeks to pose were properly before the Court, it is plain that the record contains no reasonable factual basis for a conclusion that appellee Glaxo's microsize patent was "essential" to what appellant has chosen to characterize as "the appellees' scheme to violate the antitrust laws." (Ap. Br. 28)

As shown above, the only adjudication of illegality that the trial court was asked to or did make was that specific restraints on the alienation of a purchased

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is not based upon any violation of the antitrust laws or on Glaxo's answer. The amended complaint alleges the patent is invalid for failure to comply with the requirements of the patent laws [citations omitted] not directly related to Glaxo's restrictive licensing practices * * *." (Memorandum of Plaintiff in Opposition to Defendant Glaxo's Objections to Plaintiff's July 16, 1968, Interrogatories, Sept. 25, 1968, p. 8) (not printed)

commodity, contained in four contracts during varying portions of the period 1959-April 1968, were unlawful. It can hardly be maintained that patents are "essential" to the imposition of restraints on resale, for the courts frequently have had occasion to adjudicate the legality *vel non* of such restraints in cases where no patents whatsoever existed. See, *e.g.*, *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365; *United States* v. *Sealy, Inc.*, 388 U.S. 350; *White Motor Co.* v. *United States*, 372 U.S. 253. Accordingly, there is no basis for the assertion that either ICI's or Glaxo's patent was "essential" to the only antitrust violation found in this case.[9]

The situation is particularly clear and unequivocal in the case of Glaxo's microsize patent. That patent did not even issue until several years after the agreements in question had been made. The patent was in effect for only two months prior to the termination of one of the challenged restrictions and for eight months prior to the termination of all of them. These circumstances show that the microsize patent simply could not have been "the basis for license agreements which unlawfully restrained trade" (Ap. Br. 27) or "essential to the appellees' scheme to violate the antitrust laws" (Ap. Br. 28) or "the keystone upon which the appellees built their structure of licensing agreements" (Ap. Br. 34), and that these contentions of appellant are no more than empty rhetoric.

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[9] As we shall show below, the bulk limitations were in fact never "effective" in that they had no consequences in terms of preventing resales that would otherwise have taken place. (See pp. 28-29, *infra*) For this reason it is meaningless to speak of the involvement of either ICI's or Glaxo's patent in the "effectiveness" of any antitrust violation.

The fact is that appellant's own argument is inconsistent with any contention that Glaxo's patent gave appellees power by which they "maintained their monopoly in the United States over the drug and kept it out of the hands of generic sellers and price-cutters." (Ap. Br. 28) Appellant specifically argues that "ICI's patent," which had issued years before, already "prevented others from making bulk form griseofulvin into dosage form." (Ap. Br. 28) Thus accepting appellant's own argument Glaxo's microsize patent, during the brief period when it and the challenged bulk limitations were simultaneously in effect, could not in any sense have been said to be necessary to make those limitations "effective" (*cf.* Ap. Br. 28) or to give appellees any "power" (*cf.* Ap. Br. 27) to impose them.

In sum, there is no occasion for this Court to consider whether appellant would have had the right in a case such as this to challenge the validity of Glaxo's microsize patent if that patent had been shown to have played an indispensable role in the imposition of unlawful restraints of trade. Since appellant has expressly disclaimed any other basis for its argument that it has the right to challenge Glaxo's patent, the action of the District Court in declining to permit appellant to amend its complaint to assert such a challenge must be affirmed.[10]

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[10] Appellant claims a right "even in antitrust suits" to assert challenges to patent validity only in "a narrow category of cases," *i.e.*, Sherman Act suits "against restrictive licensing practices." (Ap. Br. 34) On any theory this is not such a case since it was not "restrictive licensing practices," but solely restraints by a vendor on resales by his vendee, that were here attacked or adjudicated.

c. Allowance to Appellant of a Right to Challenge Patents "Involved In Illegal Restraints of Trade" Would Permit Appellant to Attack Any Patent It Deems Invalid

Even if Glaxo's microsize patent had been "involved in illegal restraints of trade" (Ap. Br. 2) that fact would not support any allowance of an attack on the validity of the patent unless appellant is to be given precisely the "'roving commission' broadly to challenge any patents it deems invalid" that it disclaims in its brief. (Ap. Br. 33) Appellant has made every effort to articulate a rationale that would distinguish between the two situations just stated, but it has been unable meaningfully to do so. The fact is that the "broad public interest in freeing the channels of commerce from invalid patents" (Ap. Br. 29) that appellant over and over again invokes provides no more support for the particular authority that it seeks than for the "roving commission" that it earnestly disclaims.

Appellant successively refers to "decisions of this Court favoring authoritative testing of patent validity and protection by the federal government of the public interest in assuring that the national patent system covers only valid patents" (Ap. Br. 21); states that "invalid patents — such as those which do not embody true invention — are unwarranted burdens on free commerce which ought to be eliminated" (Ap. Br. 24); asserts that "judicial testing of patent validity is necessary to assure that unwarranted patents are eliminated" (Ap. Br. 26); and finally claims that "the United States should not have less authority when it acts in its sovereign capacity to protect the public interest in seeking a declaration of invalidity than when it seeks such a declaration in connection

with its own use of the patent" (Ap. Br. 43). Each of these general principles, which appellant purports to derive from decisions of this Court that in fact deal with situations entirely different from that here presented, would as stated as readily justify the kind of naked attack on patent validity that appellant claims to be the farthest thing from its mind as it would the purportedly narrower rule that appellant has attempted to formulate.

Appellant's attempt to carve out a narrow category of "patents involved in antitrust violations" (Ap. Br. 33) is meaningless in light of the inescapable fact that the very function of a patent is to confer a monopoly which in the absence of the patent would constitute an unreasonable restraint of trade. In this connection appellant itself argues that "the monopolistic consequences resulting from a patent are justified only where the prerequisites to obtaining the patent have been strictly observed" (Ap. Br. 23), and that although "monopoly effects will be permitted with respect to a valid patent, there is no justification for the patent monopoly or for monopolistic practices and consequences based thereon where the patent is invalid" (Ap. Br. 28). In this very case, appellees could have produced the "monopolistic consequences" of which appellant complains without any limitations on bulk resale simply by declining to license others and selling griseofulvin only in dosage form. And any patentee can arrogate to itself all trade in the patented product by merely refusing to license others, or alternatively can exact tribute from others in the form of license fees. For these reasons any attempt to draw a meaningful line between allegedly invalid patents "involved in antitrust violations" (subject to challenge) and

other allegedly invalid patents (not so subject) can only fail.[11]

d. This Case Is Governed By A Rule Established More Than Seventy Years Ago And Unchallenged Since That Time

We have shown above that the position asserted by appellant necessarily postulates a governmental right to utilize the antitrust jurisdiction to challenge the validity of any patent. This position is in direct conflict with settled law, established more than seventy years ago by this Court, since reiterated by other courts, unchallenged by appellant from that day to the institution of this case and left undisturbed by Congress despite numerous partial revisions of the patent laws and a complete revision of those laws in 1952.

In *United States* v. *American Bell Telephone Co.*, 167 U.S. 224, this Court expressly determined that the United States has no right or standing to bring suit to attack the validity of a patent in the absence of fraud or the like. The Court held that an "error of judgment on the part of the patent officials" (the very ground upon which appellant seeks to raise a challenge to patents in this case) would not justify such a governmental challenge. (167 U.S. at 269)

Appellant suggests that this "restrictive language" was unnecessary to the decision in the *Telephone* case. (Ap. Br. 37) This contention is without merit. The Court in that case specifically posed the question

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[11] Appellant's argument that "a broad-scale attack on patents generally" would be precluded by "the practicalities of government" (Ap. Br. 34) is, to say the least, a curious one. The point appears to be that this Court should not hesitate to give appellant extensive new powers because appellant will in any event not exercise them.

whether a suit brought by the government to challenge a patent on the ground of error of judgment could be maintained, and ruled that "the question, as stated, is not open for consideration in this case." It was for this very reason that the case was dismissed. (167 U.S. at 269-70) Had there been any possible doubt about the matter, it would have been effectively laid to rest by the fact that this Court has itself explicitly noted that in *Telephone* "the United States was held without standing to bring a suit in equity to cancel a patent on the ground of invalidity." *United States* v. *United States Gypsum Co.*, 333 U.S. 364, 387.

The rule stated in the *Telephone* case has been so universally accepted that between the time of that decision and the institution of this case appellant never even claimed a right to bring an action challenging the validity of patents except in instances of fraud or comparable circumstances.[12] The only decisions that have touched on the question have followed *Telephone*. *United States* v. *Cold Metal Process Co.*, 57 F.Supp. 317 (N.D. Ohio 1944), *aff'd*, 164 F.2d 754 (6th Cir. 1947), *cert. denied*, 334 U.S. 811; *United States* v. *Standard Electric Time Co.*, 155 F.Supp. 949 (D. Mass. 1957). No less significant is the fact that Congress in the years since *Telephone* has shown no inclination to change the rule laid down in that case despite the fact that it has made numerous limited re-

[12] In United States v. Cooper Corp., 312 U.S. 600, 614, this Court, after noting that the United States had never in the fifty-year history of Section 7 of the Sherman Act, providing for the award of treble damages, sought to invoke that Section, stated:

> "In these circumstances the conviction that no right to sue had been given the Government, rather than a supine neglect to resort to an available remedy, seems to us the true explanation of the fact that no such actions have been instituted by the United States."

visions of the patent laws and one complete and thoroughgoing such revision. See Commentary on the New Patent Act, 35 U.S.C.A. at pp. 2-5. Under these circumstances the comment of Judge Wyzanski in *United States* v. *Standard Electric Time Co., supra,* at 953, with respect to the question whether the government has a right to sue to cancel a patent on the ground of invalidity is very much in point:

> "There are some who believe that the Government ought to have a right to bring such a suit. See, for example, Senate Report No. 1464, S. Res. 92, 84th Cong., 2nd Sess. p. 13. But so far Congress has not agreed to give the Government this right. And it is unsuitable for a court without legislative authority behind it, to create this right. Cf. United States v. Bell Telephone Co., 167 U.S. 224, 17 S. Ct. 809, 42 L. Ed. 144."

c. The Gypsum Case Supports Appellees' Position Rather Than That of Appellant

Appellant relies on the "rationale" of *United States* v. *United States Gypsum Co.*, 333 U.S. 364, as establishing its right to challenge appellees' patents in this case.[13] In fact that case, to the extent that it is relevant, affirmatively supports appellees' contrary position.

In *Gypsum* the government challenged certain restrictive practices. The defendants conceded that the practices would be unlawful in the absence of patents, but urged that they were rendered lawful by the existence of patents. The government thereupon sought to amend its complaint to charge that the patents in

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[13] This contention is predicated on the proposition that appellees' patents were "involved in the antitrust violations." (Ap. Br. 37) We have shown above that this is not so, but accept the proposition *arguendo* for purposes of the discussion in this subsection.

question were invalid, and hence could not be relied upon to immunize otherwise unlawful conduct. The trial court declined to permit the amendment.

On appeal, this Court ruled that the restrictive practices in question were illegal irrespective of whether the patents relied on by the defendants were valid, and that accordingly the question whether the government could challenge those patents "need not be decided to dispose of this case * * *." (333 U.S. at 387) The Court nevertheless concluded that it was inadvisable to leave the trial court's decision as a precedent, and proceeded to decide that in an antitrust suit where the defendant relies on patents to justify his conduct the government, rather than being handicapped to a potentially fatal degree by being forced to proceed on the assumption that the patents are valid, should be permitted "to show that the asserted shield of patentability does not exist." (333 U.S. at 388)

Gypsum is altogether inapposite here. Appellees in this case never sought to interpose any "asserted shield of patentability." Whereas in *Gypsum* the charge was that the defendants had "violated the Sherman Act because they granted licenses under patents which in fact were invalid" (333 U.S. at 387), here from the outset it was common ground between the parties that the validity or invalidity of patents had no bearing whatever on the legality of the restraints on alienation in appellees' contracts.[14] In the

[14] Appellees' failure to rely on their patents as justifying the restraints at issue in this case was in no sense—as appellant urged below but has not suggested in this Court—a tactical maneuver designed to rob appellant of an opportunity to challenge those patents. Rather, it was occasioned by the manifest fact—which appellant itself urged below—that the validity *vel non* of the patents had no bearing whatever on the validity of the restraints.

circumstances discussed in *Gypsum* a failure to permit the government to challenge patent validity could result in a situation whereby defendants could perpetuate a system of license restraints concededly illegal in the absence of patents, by reliance on patents which were in fact invalid. Here, in contrast, the only antitrust claims asserted by appellant have been disposed of in its favor, and a maintenance or revival of the conduct to which those claims related has been enjoined by the trial court. There is thus no need in cases such as this, as there is in the situation discussed in *Gypsum*, to allow a challenge to patents in order to reach antitrust violations that would otherwise be insulated from effective challenge.

In urging that the *Gypsum* rationale is applicable here, appellant argues that the "public interest in free competition" referred to in *Gypsum* (333 U.S. at 387) "is equally thwarted by the continued existence and enforcement of an invalid patent that is involved in an antitrust violation, whether or not the patent is relied upon as a defense to the antitrust charge." (Ap. Br. 40) The difficulty with this approach is that it manifestly proves far too much. Appellant's quoted statement would be no more or less true if it were rephrased to refer simply to "an invalid patent," rather than only to "an invalid patent that is involved in an antitrust violation." Even appellant has shrunk from contending that *Gypsum*'s "rationale" supports a general right in the Department of Justice to seek out and destroy patents on conventional patent law grounds.

The true "rationale" of the *Gypsum* case is simply that a party to litigation should not be permitted to rely affirmatively on his patent and at the same time withhold it from judicial scrutiny. Compare *Lear,*

Inc. v. *Adkins,* 395 U.S. 653. Nothing of the sort is involved in this case.

The result reached by the Court in *Gypsum* in fact supports appellees' position. If appellant were correct, the Court could not have there ruled that the question of the right to challenge the defendants' patents "need not be decided" (333 U.S. at 387), since the government would have been entitled *both* to receive a judgment declaring the challenged restraints unlawful and to continue to press its charges of patent invalidity. It is plain, however, that this Court, as well as appellant itself, regarded the latter issue as removed from the *Gypsum* litigation by the determination of the former in favor of the government.[15] This case presents a precisely parallel situation. Appellant has received a judgment declaring the restraints here challenged to be unlawful and enjoining their revival. That should be, as it was in *Gypsum*, the end of the matter.[16]

II

THERE IS NO MERIT IN APPELLANT'S CONTENTION THAT THE TRIAL COURT WAS REQUIRED TO DECREE COMPULSORY SALES AND PATENT LICENSING AS A MATTER OF LAW

Although this case involved only one form of restriction upon the resale of a single drug, the court

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[15] In its brief in *Gypsum* appellant stated:

> "The Court need reach the issue here discussed as to the Government's right to assert the invalidity of the patents only if it rejects each of our prior arguments." Brief for the United States, No. 13, O.T. 1947, p. 275.

[16] This is not, of course, to say that under appropriate circumstances a court, when the government has proved a violation of the antitrust laws involving misuse of patents, may not decree appropriate relief by way of compulsory licensing or the like. As to the impropriety of such relief in this case, see pp. 24-32, *infra.*

in its decree broadly prohibited all resale restrictions upon all drugs. And although appellant never sought or secured a determination as to the illegality of a patent license restriction on the freedom of a manufacturing licensee to sell its manufactured product in bulk form, the court broadly prohibited that and other similar restrictions — and as to all drugs rather than griseofulvin alone.[17] Appellant thus received relief that was not merely adequate but liberal.

Appellant argues that the trial court's decree must nevertheless be overturned because it does not additionally compel appellees both to make bulk sales of griseofulvin to all *bona fide* applicants and to grant licenses under their griseofulvin patents. (Ap. Br. 43-53)[18] In doing so appellant assumes a heavy burden. This Court has repeatedly held that the trial court's formulation of antitrust relief is not lightly to be disturbed. In *United States* v. *United States Gypsum Co.*, 340 U.S. 76, 89, the Court emphasized that the "determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court." In *Besser Mfg. Co.* v. *United States*, 343 U.S. 444, 449, it noted that "in framing

[17] Appellant suggests that this provision was warranted because the bulk sale restraint which ICI imposed on AMHO with respect to griseofulvin was "a manufacturing restraint in addition to being a restraint on alienation." (Ap. Br. 45, n.41) It does not explain why this fact warranted the provision in question when appellant specifically refrained from challenging the manufacturing aspect of the restraint, or why in any event it warranted a provision reading on all drugs and not simply griseofulvin.

[18] If this Court were in fact to overturn the decree on this ground, it would of course be necessary to give the District Court the opportunity to reconsider other provisions of the decree, whose breadth it might well wish to decrease if the decree were to be broadened in respects that it did not intend or anticipate.

relief in antitrust cases, a range of discretion rests with the trial judge." In *International Boxing Club* v. *United States,* 358 U.S. 242, 253, it admonished that in "approaching the question of relief we must remember that our function is not to sit as a trial court." In *International Salt Co.* v. *United States,* 332 U.S. 392, 400-01, it held that

> "The framing of decrees should take place in the District rather than in Appellate Courts. They are invested with large discretion to model their judgments to fit the exigencies of the particular case. *United States* v. *Crescent Amusement Co.,* 323 U.S. 173, 185; *United States* v. *National Lead Co.,* 332 U.S. 319."

And only last Term, this Court again emphasized that the "District Court is clothed with 'large discretion' to fit the decree to the special needs of the individual case." *Ford Motor Co.* v. *United States,* 405 U.S. 562, 573.[19]

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[19] Appellant—as appellee in *Ford*—successfully urged this Court to leave undisturbed the decree entered by the trial court in that case. In so urging, appellant—citing many of the same cases upon which it now relies—acknowledged the validity of the principles stated above:

> "In framing decrees in antitrust cases the district courts 'are clothed "with large discretion to model their judgments to fit the exigencies of the particular case." International Salt Co. v. United States, 332 U.S. 392, 400-401.' United States v. du Pont & Co., 353 U.S. 586, 607-608. See also, United States v. du Pont & Co., *supra,* 366 U.S. at 322. Particular deference must be given to that discretion where, as here, the district judge who devised the relief was the one who also found the violation. See United States v. du Pont & Co., *supra,* 366 U.S. at 322, n.3; United States v. Crescent Amusement Co., 323 U.S. 173, 185." Brief for the United States, No. 70-113, O.T. 1971, p. 42.

These principles are also controlling here, and under them the decree entered by the trial court should not be disturbed.

The decree in this case was entered by the trial court following a separate hearing dedicated to issues of relief, in which appellant unsuccessfully urged all of the factual arguments upon which it now relies. The district judge who devised the relief also found the violations, and his judgment is accordingly entitled to special deference. *United States* v. *Crescent Amusement Co.*, *supra*, at 185. The trial court's opinion shows clearly that it thoroughly examined all of the relevant circumstances, and carefully formulated its judgment to "fit the exigencies of the particular case." *International Salt Co.* v. *United States*, *supra*, at 400-01. In denying the additional relief sought by appellant, the trial court acted well within the "large discretion" with which it is invested with respect to antitrust relief, *ibid.*; *Ford Motor Co.* v. *United States*, *supra*, at 573, and properly declined appellant's invitation to embrace an inflexible and mandatory rule in circumstances that traditionally call for specific attention to "the exigencies of the particular case."

Appellant argues that the trial court employed an erroneous legal standard for the formulation of relief. (Ap. Br. 52)[20] It asserts without reference to

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[20] The trial court in fact demonstrated its full awareness of the principles enunciated by this Court for the guidance of trial courts in formulating antitrust relief. The court expressly recognized that relief need not be restricted to the "proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal" (United States v. United States Gypsum Co., *supra*, at 88-89); it recognized that the "essential consideration" in the formulation of relief "is that the remedy shall be as effective and fair as possible in preventing continued or future violations of the Antitrust Act in the light of the facts of the particular case" (United States v. National Lead Co., 332 U.S. 319, 335); and it was prepared "in appropriate circumstances" to go beyond the prohibition of the specific conduct

any evidence or finding that the restraints found to be illegal "necessarily 'materially contributed'" to the "present non-competitive market structure," and that "no more is required" to warrant compulsory sales and patent licensing. (Ap. Br. 53) Apart from the fact that to prevail in this Court appellant must show not simply that the District Court would have been "warranted" in ordering compulsory sales and licensing but that it was bound to do so as a matter of law, these claims are entirely without merit.

This case involves abandoned restraints upon alienation which were exclusively applicable to resales in bulk by appellees' vendees. Accordingly, appellant's argument that it is "inescapable" that those restraints have "materially contributed" to the present "market structure" (Ap. Br. 53) must mean that there is some reasonable likelihood that without those restraints the vendees would have made substantial resales in bulk to "generic and other independent drug firms." (Ap. Br. 46) The fact is, however, that the trial court found that the past restrictions did not appear to have caused a "current monopoly condition." (J.S. 68) Appellant itself pays tribute to the accuracy of that finding by arguing that the "mere cancellation" of the bulk limitations is inadequate relief because "there is scant reason to think that the licensees, when freed from the prohibitions against bulk selling, would decide that their economic self-interest is better served by selling in bulk" than by continuing to sell in dosage form. (Ap. Br. 47) There is, of course, no more reason to think that the same "economic self-interest"

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found illegal where "effective relief cannot be afforded" without the elimination of otherwise lawful conduct, or where such lawful conduct "would be a cover for pursuing the forbidden activity." (J.S. App. 66)

would have caused appellees' vendees generally to resell griseofulvin in bulk to "generic and other independent drug firms" on terms that would have encouraged the latter to compete in a limited market if the long-since terminated restrictions that are the sole subject matter of this case had never existed. Appellant has thus unwittingly conceded the unlikelihood that the abandoned bulk limitations ever had any actual market consequences.[21]

Appellant's arguments show that it would have the Court go far beyond the traditional function of anti-

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[21] In its Statement of the Case, appellant attempts to imply that but for the bulk restrictions AMHO, Schering and J&J would have sold griseofulvin in bulk since "they sold substantial amounts of other drug products in bulk form during the same period * * *." (Ap. Br. 14-15) The true facts are as follows: The only record evidence as to J&J's bulk sales practices is a sworn statement by a J&J executive that the only J&J company involved with griseofulvin "has never been in the business of selling chemicals in bulk form * * *." (Affidavit of John H. Kip attached to Brief of Defendant Glaxo Concerning Final Judgments Proposed by the Parties, dated December 3, 1970 (not printed)) Similarly, a Schering executive testified by affidavit without contradiction that although a very small proportion of Schering's business was composed of the sale of bulk chemicals *manufactured* by it, the company had in the previous decade *never* sold in bulk any chemical *purchased* by it, as griseofulvin was purchased. (Affidavit of Richard J. Bennett, dated December 15, 1970 (not printed)) And the evidence as to AMHO showed that prior to the cancellation of the bulk sale provision in its agreement with ICI AMHO had never "even received any inquiries or requests from any company for commercial supplies of bulk griseofulvin for use in the United States" (App. 409), and that its total sales of bulk chemicals in the five-year period preceding the entry of the final judgment (much of which was penicillin) was in no year as much as $40,000. (App. 240) These facts are the most probative possible evidence that AMHO, Schering and J&J would not have sold significant quantities of bulk griseofulvin even if the bulk limitations had never existed.

trust relief of creating a market situation "as near as possible to the *status quo*" existing apart from the adjudged violations. *International Boxing Club* v. *United States, supra*, at 258. Compulsory bulk sales of griseofulvin by appellees to all *bona fide* applicants on "nondiscriminatory terms" are essential, says appellant, to "create new competition" for appellees' present vendees. (Ap. Br. 48) This statement ignores the fact that this case has never involved any general conspiracy but only specific contractual restraints upon alienation which were finally and unconditionally abandoned long before they were condemned by the trial court, and whose revival has been specifically enjoined. It ignores the fact that the market situation in the absence of the restrictions would not have been one where any person was free to enter and compete at will, but rather one embraced by patent protection. It ignores the fact that the trial court found that it did not appear that those abandoned restraints had caused a "current monopoly condition," or that appellees had otherwise sought to create "covers for the continuation of bulk resale restrictions." (J.S. App. 68) And finally, it ignores the fact that those restraints did not relate in any way to bulk sales by appellees, so that to require appellees to make bulk sales to any and all applicants would be plainly unresponsive to the decided issues.

The fact is that if and to the extent that "generic and other independent drug houses" are in the future unable to purchase bulk griseofulvin at prices that they consider attractive, the reason will not be the past existence of bulk limitations on appellees' vendees but the independent business judgment of those vendees. What appellant truly — and improperly — seeks here is not a market freed of unlawful restraints,

but one in which appellees are compelled to assume the role of a public utility and the distribution of griseofulvin is regulated by judicial decree.

The obvious impropriety of appellant's proposed relief is strikingly demonstrated by the fact that it would give every would-be purchaser an absolute and judicially enforceable right to buy bulk griseofulvin from appellees, so long as appellees sell to their present vendees, on the same price basis as those vendees. Even if it is assumed, contrary to appellant's own concession, that appellees' vendees would have been likely to have resold griseofulvin in bulk had the restraints upon alienation not existed, it is an absolute certainty that they would not have done so at the very prices that they themselves had paid. The relief sought by appellant thus goes drastically beyond a return of this market to any conceivable *"status quo"* that might have existed absent the adjudged violations.[22]

The considerations stated above are equally applicable to appellant's argument that the trial court erred as a matter of law in failing to require compulsory patent licensing. There are, moreover, additional defects in appellant's position on the latter point. The trial court found that appellant had failed to show

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[22] Appellant's rehearsal of instances in which compulsory sales provisions have been included in antitrust judgments (Ap. Br. 45) adds nothing. There have also been numerous cases involving restraints on alienation in which such provisions have evidently been found unnecessary or inappropriate. *E.g.*, United States v. Farbenfabriken Bayer A.G., 1969 Trade Cases ¶ 72,918 (D.D.C. 1969); United States v. Arnold, Schwinn & Co., 1968 Trade Cases ¶ 72,480 (N.D. Ill. 1968); United States v. Serta Associates, Inc., 1968 Trade Cases ¶ 72,583 (N.D. Ill. 1968); United States v. Permatex Co., 1966 Trade Cases ¶ 71,754 (E.D.N.Y. 1966).

that appellees' licensing practices were even "related" to the antitrust violations adjudged in this case much less that they were "methods to circumvent the prohibition of restraints on resale" or that appellees had in any way "abused" their patent rights. (J.S. App. 69) In these circumstances, appellant's demand for compulsory patent licensing, far from being entitled to acceptance by the trial court as a matter of law, went plainly beyond both the violations adjudged and any conceivably appropriate relief.

Appellant's purposes are shown vividly by its claim that compulsory patent licensing "is necessary in order to create competition at the manufacturing level." (Ap. Br. 50) It is doubtless true that competition in the manufacture of a patented product would probably be increased if the patent owner were compelled to grant manufacturing licenses to any and all interested strangers, but that has never before been thought to be *ipso facto* sufficient to justify imposition of such a compulsion. "Competition at the manufacturing level" was never restrained or otherwise affected by any practice whose illegality was determined in this case, and the zeal of appellant to "create competition" at that level is thus simply irrelevant here.[23]

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[23] Entirely apart from all the foregoing, appellant's position on compulsory licensing is not supported by the principal justification offered in its support. That justification is that appellant's proposed compulsory bulk sale provision, which is applicable only so long as appellees continue to sell in the United States, might not be "adequate," since appellees might in the future halt such sales altogether. (Ap. Br. 49-50) It is hardly necessary to point out that the broadest compulsory licensing provision that could be justified by this argument would be one which took hold only if and when appellees in fact withdrew from the United States market.

CONCLUSION

For the foregoing reasons, the judgment of the court below should be affirmed.

Respectfully submitted,

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